

**OFFICE OF MUNICIPAL AFFAIRS
REVIEW OF POLICIES AND PROCEDURES
FOR THE ADMINISTRATION OF THE
MOTOR VEHICLE AND TRAILER
EXCISE TAX ELIMINATION ACT OF 1998
JANUARY 2001**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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EXECUTIVE SUMMARY

Based on our review procedures and on the results of tests performed, we have concluded that the policies and procedures implemented by the Office of Municipal Affairs (OMA), for the tax roll year 1999, are efficacious and were administered in compliance with Chapter 44-34.1 of the General Laws of Rhode Island.

There are no findings contained in this report. However, we did observe that because of an anticipated change in methodology required to comply with the legislative intent of the General Assembly, the December 31, 1998 tax roll data was withheld by the municipalities and fire districts thus precluding OMA from processing the scheduled June 20, 1999 payment. Upon receiving authorization from the Budget Office, OMA processed an interim payment based upon 95 percent of the estimated balance due for June 20, 1998. A final reconciliation payment will be paid by OMA upon receipt of the motor vehicle tax roll data for December 31, 1998.

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January 22, 2001

Robert L. Carl, Jr., Ph.D., Director
Department of Administration
One Capitol Hill
Providence, RI 02908

Dear Dr. Carl:

Pursuant to your request, we have completed our review of the policies and procedures used by the Office of Municipal Affairs to reimburse cities, towns, and fire districts in accordance with Chapter 44-34.1 of the General Laws of Rhode Island, for the tax roll year 1999. The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of this report.

Sincerely,

Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pb

OFFICE OF THE MUNICIPAL AFFAIRS
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INTRODUCTION

Objectives, Scope, and Metholdology

The purpose of our review was to assess whether the policies and procedures developed by OMA to implement the Motor Vehicle Excise Tax Phase-Out were efficacious and administered in compliance with Chapter 44-34.1 of the General Laws of Rhode Island.

We reviewed the policies and procedures developed by OMA to administer the Motor Vehicle Excise Tax Phase Out (Motor Vehicle and Trailer Excise Tax Elimination Act of 1998). Our review was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included such tests as we considered necessary to evaluate the effectiveness of management's policies and procedures.

Our review, which was substantially less in scope than an audit, was limited to evaluating the effectiveness of the policies and procedures developed by OMA to implement the Motor Vehicle Excise Tax Phase-Out.

To achieve our objectives, we reviewed the enabling legislation, and correspondence provided by the General Assembly to gain an understanding of the legislative intent. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and testing. Tests were performed following a nonstatistical sampling approach utilizing computer-generated random number selections.

Background

Upon request from the Office of Municipal Affairs (OMA), the Director of the Department of Administration requested the Bureau of Audits to review the policies and procedures developed to administer the Motor Vehicle Excise Tax Phase Out.

Article 28 of the Fiscal Year 1999 Budget (House Bill 98-H 8478 Sub A) was passed into law on June 18, 1998. Its purpose is to accomplish the phase out of the Assessment and taxation of motor vehicles, trailers, and leased vehicles over a seven-year period commencing with the excise tax bills mailed to taxpayers for the fiscal year 2000. The law requires the tax assessors for the various municipalities and fire districts to reduce the average retail value of vehicles assessed for the fiscal years 2000 through 2006 by using the following prorated exemptions:

<u>Fiscal Year</u>	<u>Exempt From Value</u>
2000	\$ 1,500
2001	2,500
2002	3,500
2003	8,000
2004	10,000
2005	15,000
2006	All Vehicles

The law also provides for the advance distribution of reimbursement payments to the municipalities and fire districts for the amount of lost tax revenue that is directly attributable to the phase out. The payments made are to be financed from state general revenues and are to be calculated and distributed in accordance with the following schedule:

- On October 20, 1998 and each October 20 thereafter through October 20, 2004, twenty-five percent (25%) of the amount calculated by the director of administration to be the difference for the upcoming fiscal year.
- On February 20, 1999 and each February 20 thereafter through February 20, 2005, twenty-five percent (25%) of the amount calculated by the director of administration to be the difference for the upcoming fiscal year.

- On June 20, 1999 and each June 20 thereafter through February 20, 2005, fifty percent (50%) of the amount calculated by the director of administration to be the difference for the upcoming fiscal year.
- Funds distributed for fiscal year 2006 shall be calculated as the funds distributed in fiscal year 2005 adjusted by the change in the consumer price index - all urban consumers (CPI-U) published by the Bureau of Labor Statistics of the United States Department of Labor from June 2004 to June 2005.

Upon the elimination of the tax and beginning in fiscal year 2006, municipalities and fire districts are to receive a permanent distribution of sales tax revenue pursuant to RIGL § 44-18-18 in an amount equal to any lost revenue resulting from the excise tax elimination. Lost revenues are to be determined using a base tax rate fixed at fiscal year 1998 levels for each municipality and fire district, except that the Town of Johnston's base tax rate must be fixed at the fiscal year 1999 level.

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OBSERVATION

Reimbursement Payments

The Office of Municipal Affairs (OMA) processed the first two scheduled reimbursement payments (October 20, 1998 and February 20, 1999) based upon the motor vehicle tax rolls for December 31, 1997. These payments represented estimates for the anticipated loss of tax revenue for fiscal year 2000. The third and final payment which was scheduled to be paid on June 20, 1999 was to be a reconciliation payment and was to be based upon the motor vehicle tax rolls for December 31, 1998.

Prior to making the third and final payment to the municipalities and fire districts, OMA was informed by the House Fiscal Staff that its methodology used to determine payments did not appear to follow the legislative intent of the General Assembly. This anticipated change in methodology caused the tax roll data for December 31, 1998 to be withheld by the municipalities and fire districts, which precluded OMA from processing the scheduled June 20, 1999 payment. As an alternative, the Budget Office authorized OMA to process an interim payment based upon 95% of the estimated balance due at that date. As a result of the above, a final reconciliation payment will be paid by OMA upon receipt of the December 31, 1998 motor vehicle tax roll data.

CONCLUSION

Based on our review and on the results of tests performed, we have concluded that the policies and procedures used by OMA, for the tax roll year 1999, are efficacious and were administered in compliance with Chapter 44-34.1 of the General Laws of Rhode Island. However, in making this determination, we noted certain matters which are presented in the observations section of this report.

TITLE 44Taxation

CHAPTER 44-34.1

Motor Vehicle and Trailer Excise Tax Elimination Act of 1998

SECTION 44-34.1-1

§ 44-34.1-1 Excise tax phase out. B (a) Notwithstanding the provisions of chapter 34 of this title or any other provisions to the contrary, the motor vehicle and trailer excise tax established by § 44-34-1 shall be phased out by the fiscal year 2005. The phase out applies to all motor vehicles and trailers, including leased vehicles.

(b) Pursuant to the provisions of this section, all motor vehicles are assessed a value by the vehicle value commission. That value is assessed according to the provisions of § 44-34-11(c)(1).

(c) The motor vehicle excise tax phase out commences with the excise tax bills mailed to taxpayers for the fiscal year 2000. The tax assessors of the various cities and towns and fire districts shall reduce the average retail value of each vehicle assessed by using the prorated exemptions from the following table:

Year Exempt from value

fiscal year 2000 \$1,500

fiscal year 2001 \$2,500

fiscal year 2002 \$3,500

fiscal year 2003 \$8000

fiscal year 2004 \$10,000

fiscal year 2005 \$15,000

fiscal year 2006 All vehicles

(2) The excise tax phase out provides increased levels of assessed value reductions until the tax is eliminated.

(3) Current exemptions remain in effect throughout the phase out period.

(4) The excise tax rates and ratios of assessment shall not be greater than fiscal year 1998 levels for each city, town, and fire district, provided, however, in the Town of Johnston the excise tax rate and ratios of assessment shall not be greater than fiscal year 1999 levels and in no event shall the final taxable value of a vehicle be higher than assessed in the prior fiscal year.

SECTION 44-34.1-2

§ 44-34.1-2 City and town and fire district reimbursement. B (a) During the vehicle excise tax phase out in fiscal years 2000 through 2006, cities and towns and fire districts shall receive advance reimbursements from state general revenues equal to the amount of lost tax revenue due to the phase out of the excise tax. Upon elimination of the tax and beginning in fiscal year 2006, cities and towns and fire districts shall receive a permanent distribution of sales tax revenue pursuant to § 44-18-18 in an amount equal to any lost revenue resulting from the excise tax elimination. Lost revenues must be determined using a base tax rate fixed at fiscal year 1998 levels for each city, town, and fire district except that the Town of Johnston's base tax rate must be fixed at a fiscal year 1999 level.

(b) The director of administration shall determine the amount of general revenues to be distributed to each city and town and fire district for the fiscal years 1999 through 2005 so that every city and town and fire district is held harmless from tax loss resulting from this chapter, assuming that tax rates are indexed to inflation.

(2) The director of administration shall index the tax rates for inflation by applying the annual change in the December consumer price index B all urban consumers (CPI-U), published by the bureau of labor statistics of the United States department of labor, to the indexed tax rate used for the prior fiscal year calculation. The director shall apply the following principles in determining reimbursements:

(i) Exemptions granted by cities and towns and fire districts in the fiscal year 1998 must be applied to assessed values prior to applying the exemptions in § 44-34.1-1(c)(1). Cities and towns and fire districts will not be reimbursed for these exemptions.

(ii) No city or town or fire district shall be reimbursed for more than would have been levied had the exemptions contained in § 44-34.1-1(c)(1) not been applied, and the average retail prices determined by the Rhode Island vehicle value commission been set as the average retail price in Rhode Island using retail sales prices determined for Rhode Island state sales tax purposes as they had been for fiscal year 1999, prior to the passage of this chapter.

(iii) Inflation reimbursements shall be the difference between:

(A) The levy calculated at the tax rate used by each city and town and fire district for fiscal year 1998 after adjustments for personal exemptions but prior to adjustments for exemptions contained in § 44-34.1-1(c)(1); provided, however, that for the Town of Johnston the tax rate used for fiscal year 1999 must be used for the calculation; and

(B) The levy calculated by applying the appropriate cumulative inflation adjustment to the tax rate used by each city and town and fire district for fiscal year 1998; provided, however, that for the Town of Johnston the tax rate used for fiscal year 1999 shall be used for the calculation after adjustments for personal exemptions but prior to adjustments for exemptions contained in § 44-34.1-1.

(c) Funds shall be distributed to the cities and towns and fire districts as follows:

(i) On October 20, 1998, and each October 20 thereafter through October 20, 2004, twenty-five percent (25%) of the amount calculated by the director of administration to be the difference for the upcoming fiscal year.

(ii) On February 20, 1999, and each February 20 thereafter through February 20, 2005, twenty-five percent (25%) of the amount calculated by the director of administration to be the difference for

the upcoming fiscal year.

(iii) On June 20, 1999, and each June 20 thereafter through June 20, 2005, fifty percent (50%) of the amount calculated by the director of administration to be the difference for the upcoming fiscal year.

(2) Funds distributed to the cities and towns and fire districts for fiscal year 2006 shall be calculated as the funds distributed in fiscal year 2005 adjusted by the change in the consumer price index B all urban consumers (CPI-U) published by the Bureau of Labor Statistics of the United States Department of Labor from June 2004 to June 2005. Twenty-five percent (25%) of the amounts calculated shall be distributed to the cities and towns and fire districts on October 20, 2005, twenty-five percent (25%) on February 20, 2006, and fifty percent (50%) on June 20, 2006. The funds shall be distributed to each city and town and fire district in the same proportion as distributed in fiscal year 2005.

(3) Prior to October 20, 2006, the director of administration shall calculate to the nearest tenth of one cent the number of cents of sales tax received for the fiscal year ending June 30, 2005, equal to the amount of funds distributed to the cities and towns and fire districts under this chapter during fiscal year 2006, and the percent of the total funds distributed in fiscal year 2006, received by each city and town and fire district, calculated to the nearest one-hundredth of one percent. The director of administration shall transmit those calculations to the governor, the speaker of the house, the president of the senate, the chairperson of the house finance committee, the chairperson of the senate finance committee, the house fiscal advisor, and the senate fiscal advisor. The number of cents, applied to the sales taxes received for the prior fiscal year, shall be the basis for determining the amount of sales tax to be distributed to the cities and towns and fire districts under this chapter for fiscal year 2007, and each year thereafter. The cities and towns and fire districts shall receive that amount of sales tax in the proportions calculated by the director of administration as that received in fiscal year 2006.

(4) Twenty-five percent (25%) of the funds shall be distributed to the cities and towns and fire districts on October 20, 2006, and every October 20 thereafter; twenty-five percent (25%) shall be distributed on February 20, 2007, and every February 20 thereafter; and fifty percent (50%) shall be distributed on June 20, 2007, and every June 20 thereafter.

SECTION 44-34.1-3

§ 44-34.1-3 Permanent oversight commission. B (a) There is created a permanent oversight commission on inventory taxes and automobile excise taxes. The commission consists of the following members:

- (1) Chairperson of house finance committee, or designee;
- (2) Chairperson of senate finance committee, or designee;
- (3) Chairperson of the Rhode Island vehicle value commission;
- (4) Three (3) members of the Rhode Island assessors association;
- (5) Director of department of administration, or designee;
- (6) Chief of the office of municipal affairs, or designee;
- (7) The president of the Rhode Island league of cities and towns, or designee;

- (8) The administrator of the Rhode Island registry of motor vehicles, or designee;
- (9) The mayor of the city of Providence, or designee.
- (b) The purpose of the commission is to study and evaluate the phase out of the automobile excise tax and to establish procedures when necessary to facilitate the phase out of the tax by July 1, 2005.
- (c) The commission, at its first meeting, shall elect a chairperson from its membership.
- (d) The commission meets no less than two (2) times per year at the call of the chairperson or upon the request of at least three (3) of its members.
- (e) The members receive no compensation for their services. All departments and agencies of the state shall furnish advice and information, documentary or otherwise to the commission and its agents as is deemed necessary or desirable by the commission to facilitate the purposes of the commission.

SECTION 44-34.1-4

§ 44-34.1-4 Severability. B If any provision of this chapter or application of this chapter to any person or circumstances is held invalid, that invalidity shall not affect other provisions or applications of the chapter, which can be given effect without the invalid provision or application, and to this end the provisions of this chapter are declared to be severable.

MOTOR VEHICLE EXCISE TAX PHASEOUT FLOWCHART FOR FIRST YEAR LEVY

